

RETIREMENT

2013 SURVEY

BLACKROCK®

Building Engagement: The Power of Listening

At BlackRock, we believe that the purpose of research is not simply to understand the evolving world of retirement, but to also find ways to **help shape it**. To do that, we need to recognize **emerging trends** and help participants and plan sponsors respond in simple, clear, actionable ways. The foundation for this **effort begins with listening**.

That's why every year, BlackRock commissions the Boston Research Group to survey over one thousand defined contribution (DC) plan participants and a broad spectrum of plan sponsors on their beliefs about DC, retirement and retirement readiness.

In some instances, the surveys validate our basic assumptions about what participants and plan sponsors need and want from their retirement plans. Sometimes, the results force us to rethink our premises and consider new ways to solve problems. And at other times, we find gaps between what plan sponsors and participants believe that help us bring better focus to our role as DC providers.

The insights from this year's survey point toward three key areas of opportunity for plan sponsors and providers to deepen the beneficial impact DC plans have on their participant's retirement security. They are:

1 DC PLANS HAVE UNTAPPED POTENTIAL FOR INFLUENCING SAVINGS AND CREATING A MORE POSITIVE WORKPLACE CULTURE.

2 RETIREMENT INCOME CLARITY CAN DRIVE SAVINGS.

3 PARTICIPANTS LIKE AUTOMATIC FEATURES AND MANAGEMENT.

Fortunately, these insights also suggest the actions needed to seize the opportunities they offer. In fact, one thing that is perfectly clear in this year's survey results is the level of commitment and resources plan sponsors dedicate to creating great DC plans. Therefore, rather than costly new initiatives, many of the solutions require closer engagement and targeted communication, shaped by actively listening to what participants are telling us. Let's take a look at the findings in depth.

“ Sometimes, the results force us to rethink our premises and consider new ways to solve problems.”

KEY
INSIGHT **1**

DC PLANS HAVE UNTAPPED POTENTIAL FOR INFLUENCING SAVINGS AND CREATING A MORE POSITIVE WORKPLACE CULTURE.

WHAT IS THE RETIREMENT ENGAGEMENT BENCHMARK™?

BlackRock Retirement Engagement Benchmark™ uses sophisticated corporate culture analysis to quantify how deeply participants are engaged with their retirement plans and provides psychographic profiles to help plan sponsors better target their communications efforts.

Let's start with the good news: 79% of participants claim that their DC plan is a valuable benefit and that it has made them more loyal to their employer. 80% say that the more their employer improves their plan, the more they believe the company cares about them as individuals. These findings are powerful validation that employees see the DC plan in the larger context of the total workplace culture, and show that they may even view it as an expression of corporate values.

Yet, there is an element of missed opportunity suggested in the findings. For example, 56% of participants say they don't believe their employer will give them all the help they need when saving for retirement at work. 33% consider their plan to be a good benefit but they just don't pay much attention to it. On the plan sponsor side, 8 in 10 believe their DC plan is a valuable benefit, but only 1 in 3 thinks that the majority of his participants recognize its value.

To an extent, plan sponsors may not realize how positively participants perceive the benefits of their plan, and therefore do not reinforce those benefits when engaging with their employees. They may also miss the subtle ways that plans influence and reinforce participant assumptions. One example stands out clearly: 84% of participants say the company match is an important factor in setting their contribution, and 67% regard the match as advice on how much to save. In other words, the match is implicitly accepted as savings advice.

ACTION PLAN: Research conducted by BlackRock and Boston Research Group to develop **BlackRock's® Retirement Engagement Benchmark™** found a connection between the quality of a plan and greater employee loyalty and productivity. The research suggests that simply doing a better job "marketing" the plan to employees and explicitly positioning it as a manifestation of the company's values and culture improves loyalty and better engages participants in saving for retirement.

A Missed Opportunity?

80% *Of participants say that the more employers improve their plan, the more they believe they care about them as employees but...*

56% *Aren't certain their employer will give them all the help they need when saving for retirement at work.*

GIVE A LITTLE HELP TO BUILD A LOT OF LOYALTY.

If there is a foundational concept to behavioral finance it is probably this: people are not always (or even often) rational nor do they always act in their best interest. Consider that of the participants who are not saving for retirement, 45% say they are not saving because **they don't know how much they will need** and 59% believe they **can't save enough to make a difference**. Rationally speaking, we all know that not saving at all is going to lead to a worse outcome than not saving enough.

But it is easy to understand how confusion and lack of clarity lead to inaction. Plan sponsors clearly sympathize with their participants' dilemma: they are nearly unanimous in believing that their participants misunderstand how much they will need in retirement. 9 in 10 believe that participants misunderstand how much they need to save today in order to pay for their retirement tomorrow.

Fortunately, the survey also provides ample evidence that clarity about retirement needs and income drives positive action. 9 in 10 participants who state that they know how much they will need in retirement are actively planning for it (against 66% who do not know). These participants are also four times more confident that they will have enough. Clarity drives savings action, which in turn creates a more stress-free transition into retirement.

ACTION PLAN: As the old saying goes, it's better to light a candle than curse the darkness. And participants agree, with nearly half saying they would save more if they understood how their savings translated into retirement income, and 77% saying they would increase their savings effort if they knew how much they would need to save per dollar of income in retirement.

Fortunately, there are several "candles" plan sponsors can light for participants. One designed for participants between the ages of 55 and 64 is **BlackRock's CoRI™ tool** powered by BlackRock's CoRI Retirement Index. Participants can input their age and their savings balance and get an estimate of how much retirement income their savings translates into. Conversely, they can use the tool to discover how much savings they would need to generate a specific income level in retirement.

45%

of participants are not saving because they don't know how much they will need. Yet, **77%** would not only save but also increase their savings if they knew how much they needed to save per dollar of income in retirement.

WHAT IS THE CoRI RETIREMENT INDEX?

This year's survey tells us that clarity around retirement income can help spur increased savings. The CoRI Retirement Indexes are specifically designed to help 55 to 64 year olds understand the income power of their savings in retirement. Participants can learn more at www.blackrock.com/cori.

Clarity Around Future Retirement Income Drives Savings Action

We asked participants, would each of the following features in a retirement savings account encourage you to save more for retirement?

YES: 94% **NO: 6%** *Told you how much income your current savings would fund in retirement*

YES: 95% **NO: 5%** *Told you how much you needed to save to reach your retirement income goal*

YES: 95% **NO: 5%** *Told you how much to save per dollar of income you want in retirement*

KEY INSIGHT **3**

PARTICIPANTS LIKE AUTOMATIC FEATURES AND MANAGEMENT.

Participants like the idea of target date funds. For example, 89% of participants responded that they like having a fund that automatically rebalances for them as they get older. 63% said they would use a target date fund in their IRA account. Yet 75% of participants are not invested in target date funds, out of which two-thirds of them either **believe that their plan does not have a target date fund** or **they simply do not know if it does**. Considering that **82% of plan sponsors say they offer a target date fund**, there is clearly a disconnect here.

Participants like clarity, simplicity and automated features. 91% of plan participants find auto enrollment in their plan appealing, and 77% find auto escalation appealing. 68% would even respond favorably to being automatically reenrolled into a target date fund, as long as they had the option to decline. Some of this is clearly related to the finding previously discussed that 67% accept the company match as good guidance. Participants clearly assume that plan sponsor actions are made for their benefit by someone with a greater understanding of the issues involved.

The challenge here is that many plan sponsors assume that their participants will react negatively to automatic or unilateral actions. The most significant, of course, would be a full reenrollment. Half of all plan sponsors assume that participants would react negatively. In fact, 94% of plan sponsors who have done a reenrollment report that the response was favorable.

ACTION PLAN: Many plan sponsors understand that specific actions, ranging from auto enrollment and auto escalation to full reenrollment into a target date fund, will help participants create better retirements. The survey results should increase plan sponsor **confidence about “doing the right thing”** for participants. The results strongly suggest that reinforcing the DC plan as part of the firm’s comprehensive retirement and financial wellness initiative can increase participation, deferral rates and retirement preparation.

Participants who invest in target date funds are **twice as engaged** in their plans as those participants who do not invest in such funds.

We Asked Participants, What Do You Like About Target Date Funds?



Survey Says: Engagement Matters

Perhaps one of the most powerful understandings to emerge about DC plans over the last decades is the extent to which non-investment related decisions shape retirement outcomes. Clearly the choice of funds is critical, with a growing consensus that target date or other asset allocation funds make sense for the majority of participants; however, it is participant actions—and sometimes inactions—that often have the most impact.

We need to understand what participants believe and expect, and the assumptions they make about the plan features their employers offer them. Fortunately, the survey results suggest that finding ways to engage participants in their own retirement planning can yield positive results, create clarity about life after retirement, connect the DC plan to the company's concern for their employees' well-being, and deliver the features that drive confidence that participants are on the right path. The results will be found in better retirement outcomes, a more positive workplace culture and more successfully fulfilled fiduciary responsibility.

Mind the Gap: Where Participants and Plan Sponsors Don't Align...

Participants	Plan Sponsors	...and what to do about it.
34% claim they are contributing at least 10% of pay	13% believe participants are deferring at least 10% of pay	Add auto enrollment, auto escalation and company match strategies that drive higher contributions. If participants think they are at ten percent already – do what's necessary to get them there!
25% say they try to attend every meeting on their plan	2% believe most participants try to attend every meeting	Rethink the meeting strategy. Use digital or online tools when possible. Make DC part of the annual benefits reenrollment so that you know you are reaching everyone at least annually.
90% say they would like an income stream in retirement	92% say that they offer no guaranteed income solution	Explore income solutions and begin to educate participants about retirement income options from the age of 55 until retirement.

Survey Methodology:

Two separate nationwide surveys focused on American workers participating in DC plans and American corporations sponsoring these plans. Of the 1,317 employees polled, 1,011 of them participate in a variety of DC plans, including 401(k) plans, 403(b) plans, profit sharing and stock purchase plans. Participants were drawn randomly across all sized plans and from all sized employers with a maximum sampling error of +/- 3.1 percentage points at a 95% confidence level. The plan sponsor sample of 102 corporate executives was intentionally designed to represent extremely large plans to capture the opinions of thought leaders among the plan sponsor universe. All have responsibility for their employer's DC plan, and represent plans that on average hold \$1.2 billion in DC assets, with 72% of the plans represented having more than \$1 billion in participant assets.

About BlackRock Defined Contribution:

Retirement is harder than ever before. That's why many of the world's largest DC plans trust BlackRock with their participants' retirement futures. As an independent, global DC investment only provider, BlackRock provides a breadth of capabilities and depth of knowledge across asset management, plan design, client engagement and participant communications. Our dedicated DC professionals work with plan sponsors, consultants and financial advisors to share the best thinking from across the globe and objective insights on the ever-evolving challenges of this new world. BlackRock aims to help you bring clarity to the most complex retirement plan objectives, so that together we can help deliver the optimal outcomes for participants. For additional information, visit www.blackrock.com/dc.

About Boston Research Group:

Boston Research Group (BRG) is a strategic market research and consulting firm that specializes in the financial services and employee benefits industries. The firm conducts projects dealing with both strategic and tactical marketing issues, including loyalty and satisfaction, market segmentation, brand assessment, product development, sales processes, and distribution strategies. BRG focuses on applying market research information, collected and analyzed using qualitative and quantitative data collection techniques and methodologies, to provide solutions for marketing related challenges. The firm has extensive experience studying DC participants, plan sponsors, retirement plan advisors, and search consultants. BRG has conducted the leading syndicated plan sponsor, participant and advisor studies since 2000. The BlackRock study was directed by BRG's president, Warren Cormier, who is co-founder of the Behavioral Finance Forum along with Dr. Shlomo Benartzi, a pioneer in participant behavior.

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The CoRI tool does not guarantee future income or protect against loss of principal. There can be no assurance that an investment strategy based on the CoRI tool will be successful.

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